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## **El Salvador**

### **Sugar**

### **Annual**

### **2003**

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#### **Report Highlights:**

**Recently created Salvadoran Sugar Council (CONSAA) is in charge of regulating sugar trade. Sugarcane planted area has stagnated reaching approximately 66,000 has. in 2002/03. Most sugar exports are destined to Russia and to the re-export market. Canada is a new export destination. The sector continues to get tariff protection by the government of El Salvador. Sugar industry is looking for immediate access to the U.S. market through CAFTA. USDA continues working joint projects with the Ministry of Agriculture to shift traditional agricultural production into more profitable non-traditional export crops.**

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Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

Guatemala [GT1], ES

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## **Executive Summary**

Higher yielding sugarcane varieties, diversification of industry to produce energy and alcohol/ethanol and investment in milling equipment to improve sugar yields are expected to provide a positive panorama for El Salvador's sugar industry in the 3 to 5 year outlook. A National Sugar Law that regulates sugar production, distribution and commercialization is also an important component to the reengineering process that the industry is currently undergoing. In addition, the sector seems to be recovering financially after facing debt complications due to natural disasters and lack of government policies to assist sugar farmers. However, ultimately the success of the industry will rely on compliance of the Sugar Law by all parties involved, continued improvement in sugarcane and sugar yields and increased diversification either into additional energy co-generation projects or excess production land devoted to non-traditional crops that can provide higher incomes to sugar farmers.

Sugarcane production for the 2002/03 harvest is estimated to have been 4.46 million MT. This estimate is 3.1 percent lower than the USDA database. The 2001/02 production number has been increased to 4.47 million MT mainly due to favorable weather during harvest.

Increased sugar production and lower ending stocks have increased sugar exports in 2002/03. New data provided by the Salvadoran Sugar Association shows exports increasing by 16,000 MT from the previous year's level. Sugar production is expected to be 479,000 MT in 2002/03. This production number is approximately 5,000 MT lower than previously reported to USDA by Post. Sugar production forecast for 2003/04 is similar to the 2002/03 number reaching 480,000 MT. Favorable weather conditions will play a major role in production output. Droughts are becoming more frequent in El Salvador causing extensive damage throughout the agricultural sector. The Ministry of Agriculture (MAG) is working on programs that tend to ease the impact that this type of phenomenon causes to local agriculture.

El Salvador is no longer exporting refined sugar. Strong competition in value-added production in the international market has caused the shift to only raw value exports. The Government of El Salvador (GOES) continues to control wholesale sugar prices. The current average retail price for white plantation sugar is the same as in 2002 and remains at \$ 0.26 per pound.

Salvadoran sugar industry seems to be consolidating reaching a stable production scenario which provides similar sugarcane production numbers in 2003/04 as was the case in 2002/03 harvest. Sugarcane production is only expected to be slightly higher in 2003/04 reaching approximately 480,000 MT. Area planted is expected to remain at approximately 66,000 Has.

USDA continues to work closely with MAG to coordinate the development of value-added crops that bring back profitability to farmers that are used to plantation agriculture.

PSD Table						
Country	El Salvador					

Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		11/2001		11/2002		11/2003
Area Planted	66	66	66	66	0	66
Area Harvested	64	64	64	64	0	64
Production	4454	4475	4600	4457	0	4460
TOTAL SUPPLY	4454	4475	4600	4457	0	4460
Utilization for Sugar	4454	4475	4600	4457	0	4460
Utilizatn for Alcohol	0	0	0	0	0	0
TOTAL UTILIZATION	4454	4475	4600	4457	0	4460

PSD Table						
Country	El Salvador					

Commodity	Centrifugal Sugar		2003	Estimate	(1000 MT)	
	2002	Revised			2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		11/2001		11/2002		11/2003
Beginning Stocks	40	40	37	37	28	28
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	465	468	484	479	0	480
TOTAL Sugar Production	465	468	484	479	0	480
Raw Imports	0	0	0	0	0	0
Refined Imp.(Raw Val)	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	505	508	521	516	28	508
Raw Exports	244	247	268	263	0	256
Refined Exp.(Raw Val)	0	0	0	0	0	0
TOTAL EXPORTS	244	247	268	263	0	256
Human Dom. Consumption	224	224	225	225	0	225
Other Disappearance	0	0	0	0	0	0
Total Disappearance	224	224	225	225	0	225
Ending Stocks	37	37	28	28	0	27
TOTAL DISTRIBUTION	505	508	521	516	0	508

## Production

New production numbers compiled by the Foreign Agricultural Service (FAS) office in San Salvador revealed that the 2002/03 sugar cane harvest reached 4.46 million MT. Sugar production is estimated to reach 479,000 MT in 2002/03. According to the Salvadoran Sugar Association, sugar recovery yields continue to improve and are averaging 107.78 Kgs. per MT. The continued improvement in recovery yields is attributed to controlled sugar cane burning during harvest and new sugar cane varieties that are more resistant to pests and diseases. Sugar cane burning is a method used by farmers to ease the cutting of the cane. Sugar production is expected to remain at similar levels in 2003/04 reaching 480,000 MT.

Area planted continues to remain unchanged and is expected to be 66,000 Has. in 2003/04. The Sugar Association does not foresee growth in area planted in the near future. The GOES continues programs to encourage Salvadoran farmers to shift production away from plantation agriculture into value-added non-traditional crops. This policy is supported and encouraged by USDA. Projects to increase income in rural areas and to carry out Pest Risk Assessments (PRA) to provide admissibility of non-traditional crops to the U.S. market are being financed with USDA resources.

Grower prices continue to be set according to sugar content of the cane. With the new Sugar Law, producers are to receive 54.5 percent of total sugar sales and sugar mills 45.5 percent. Privatization of all mills has helped reduce downtime during the milling process, as well as increase sugar recovery rates to a more competitive position within the region. However, some mills are facing financial restructuring and in some cases are being monitored by financial institutions that want their loans to be honored.

## **Consumption**

Consumption remains relatively stagnant and is expected to reach approximately 225,000 MT in 2002/03. The continued effects of a world recession on the Salvadoran economy has deeply contributed to the decline in consumer purchasing power. In 2003/04, consumption numbers are expected to remain at the same level as in 2002/03. The Sugar Association is finalizing details for a national marketing campaign to bolster local sugar consumption.

## **Trade**

Exports for 2002/03 are expected to reach 263,000 MT. A larger crop, increased sugar yields and reduced stocks are the main reason for the surge. The Sugar Association expects no refined exports for the 2002/03 season. Reductions in the U.S. quota assignment continue to pressure the industry to search for new markets. Export forecast for 2003/04 is 256,000 MT.

The GOES continues to impose a 40 percent import tariff to all sugar trade. The bound rate on sugar is 70 percent ad valorem. The GOES considers sugar politically sensitive because it offers large rural employment and for this reason provides tariff protection. Recent Central American Free Trade Agreement (CAFTA) negotiations have spurred regional tariff harmonizations to avoid triangulations and market disruptions.

Russia continues to be a major destination for Salvadoran sugar exports. Out of the 183,103 MT that have been shipped in the 2002/03 season, 112,650 MT have been delivered to Russia.. A new export destination is Canada with a total of 18,000 MT in 2002/03. Sugar export destinations in 2003/04 are expected to be similar to those

of 2002/03.

Local sugar industry wants to have sugar included in CAFTA negotiations with immediate access to the U.S. market. Industry also is seeking duty free access for products that contain sugar such as powder drinks.

<b>Export Trade Matrix</b>			
Country	El Salvador		

Commodity	Centrifugal Sugar		
Time period	MY	Units:	MT
Exports for:	2002		2003
U.S.	29690	U.S.	27379
Others		Others	
Russia	117000	Russia	130000
Korea	30,000	Canada	18,000
		Central America	26453
Total for Others	147000		174453
Others not Listed	70,000		61,500
Grand Total	246690		263332

## Stocks

Ending stock levels in 2002/03 decreased to 28,000 MT mainly due to increased exports. Contraband sugar



coming from neighboring Guatemala is under control and no longer causes a disruption on local consumption. The Salvadoran Sugar Law states that all sugar sold locally has to carry a safety seal provided by the newly created Salvadoran Sugar Council (CONSAA). CONSAA has taken over all assignments previously handled by the Sugar Development Commission (CDA).

## **Production Policy**

The GOES continues to require that all sugar sold in the local market be mixed with vitamin A. This added cost is shared by both producers and millers.

The GOES has not designed a specific production support or assistance program for the sugar sector yet does continue to provide tariff protection. Sugar farmers are benefitting from a program that the GOES has provided to the agricultural sector. This program is called FINSAGRO and offers loans at a 9 percent interest rate to assist farmers to payback arrears and have access to fresh working capital. Recent government assistance to the ailing coffee sector has increased pressure by other agricultural sectors, including sugar, to expand assistance programs throughout the whole agricultural sector.

The Law for Commercialization, Production and Distribution of Sugar has been in effect since August 2001. Since then, CONSAA has been in charge of regulating the sector. CONSAA has a board of directors that will include members from the government, sugar producers and sugar mills.

Following are some of the areas where the sugar industry is working to improve sugar profitability:

- Produce only the amount of sugar that can be sold at profitable prices.
- Maintain or improve milling yields.
- Diversify mill incomes by focusing on alcohol production and energy generation.
- Continue to control the use of mixed sugar cane varieties in the fields in order to have better sugar recovery yields and higher sugar quality.
- Introduce new varieties which are pest and disease resistant.

## **Price Policy**

The wholesale price for white sugar remains unchanged at \$ 23.09 per cwt plus a 13 percent value-added-tax. This price has only increased by \$ 2.00 per cwt since 1997. Rising costs for raw materials, transportation and

labor are the main reason for this price change.

The GOES controls sugar prices through the Ministry of Economy at the wholesale levels, however, little effort is made to counter price hikes at the retail level. The Sugar Association continues to publish monthly retail prices to counter indiscriminate hikes of retail prices which deeply affect the consumer.